INTERNATIONAL SPECIALTY HOLDINGS INC

FORM 10-Q
(Quarterly Report)

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Address	300 DELAWARE AVE STE 303
	WILMINGTON, Delaware 19801
Telephone	302-427-5715
CIK	0001157303

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

**/X/ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended JULY 3, 2005

OR

**/ / TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 333-82822

INTERNATIONAL SPECIALTY HOLDINGS INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	22-3807354 (IRS Employer Identification No.)
300 DELAWARE AVENUE, SUITE 303, WILMINGTON, DELAWARE (Address of principal executive offices)	19801 (Zip Code)

(302) 427-5715
(Registrant's telephone number, including area code)

NONE
(Former Name, Former Address and Former Fiscal Year,
if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes /X/ No / /

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes / / No /X/

As of August 17, 2005, 100 shares of the registrant's common stock (par value $.001 per share) were outstanding. There is no trading market for the common stock of the registrant. No shares of the registrant are held by non-affiliates.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

INTERNATIONAL SPECIALTY HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(THOUSANDS)

	SECOND QUARTER ENDED		SIX MONTHS ENDED	
	JULY 3, 2005	JULY 4, 2004*	JULY 3, 2005	JULY 4, 2004*
Net sales	$ 338,445	$ 302,232	$ 677,197	$ 602,611
Cost of products sold	(237,868)	(202,446)	(458,221)	(401,933)
Selling, general and administrative	(55,147)	(50,754)	(109,411)	(101,209)
Other operating charges	-	-	(10,532)	-
Amortization of intangible assets	(334)	(367)	(668)	(439)
Operating income	45,096	48,665	98,365	99,030
Interest expense	(19,743)	(20,330)	(39,237)	(41,842)
Investment and interest income (loss), net	2,338	(12,074)	10,273	6,224
Other expense, net	(5,155)	(2,887)	(10,264)	(4,685)
Income before income taxes	22,536	13,374	59,137	58,727
Income taxes	(7,677)	(4,554)	(20,139)	(19,991)
Net income	$ 14,859	$ 8,820	$ 38,998	$ 38,736

* Restated - see Note 1 to Consolidated Financial Statements.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	JULY 3, 2005	DECEMBER 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 40,779	$ 338,794
Investments in trading securities	-	93
Investments in available-for-sale securities	-	14,466
Short-term loan receivable from parent company	200,000	-
Accounts receivable, trade, less allowance of $8,388 and $7,444 at July 3, 2005 and December 31, 2004, respectively	156,284	132,676
Accounts receivable, other	31,001	23,511
Receivables from related parties	29,024	29,984
Inventories	253,205	208,060
Deferred income tax assets	21,326	16,186
Prepaid expenses	8,199	7,192
Total Current Assets	739,818	770,962
Property, plant and equipment, net	656,619	631,590
Goodwill, net of accumulated amortization of $180,486	339,775	337,794
Intangible assets, net of accumulated amortization of $2,927 and $2,259 at July 3, 2005 and December 31, 2004, respectively	18,009	18,677
Long-term loans receivable from parent company	94,834	94,834
Other assets	80,336	68,900
Total Assets	$1,929,391	$1,922,757
LIABILITIES AND SHAREHOLDER'S EQUITY		
Current Liabilities:		
Short-term debt	$ 72	$ 1,120
Current maturities of long-term debt	4,373	4,361
Accounts payable	93,190	84,088
Accrued liabilities	70,795	90,544
Income taxes payable	28,773	43,127
Total Current Liabilities	197,203	223,240
Long-term debt less current maturities	852,815	851,760
Deferred income tax liabilities	132,749	129,394
Other liabilities	90,801	90,619
Shareholder's Equity:		
Common stock, $.001 par value per share; 100 shares issued and outstanding	-	-
Additional paid-in capital	643,957	642,267
Retained earnings (accumulated deficit)	10,453	(26,855)
Accumulated other comprehensive income	1,413	12,332
Total Shareholder's Equity	655,823	627,744
Total Liabilities and Shareholder's Equity	$1,929,391	$1,922,757

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

INTERNATIONAL SPECIALTY HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(THOUSANDS)

	SIX MONTHS ENDED	
	July 3, 2005	July 4, 2004*
Cash flows from operating activities:		
Net income	$ 38,998	$ 38,736
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Impairment of fixed assets	10,532	-
Depreciation	35,843	32,902
Amortization of intangible assets	668	439
Noncash interest charges	1,409	1,481
Deferred income taxes	(1,272)	12,797
Net gains on securities	(6,060)	(1,197)
Increase in working capital items	(96,147)	(51,906)
Purchases of trading securities	-	(387,712)
Proceeds from sales of trading securities	-	467,456
Proceeds from sale of accounts receivable	6,242	4,074
(Increase) decrease in receivables from related parties	960	(4,121)
Other, net	1,068	66
Net cash provided by (used in) operating activities	(7,759)	113,015
Cash flows from investing activities:		
Capital expenditures and acquisitions	(108,099)	(64,073)
Purchases of available-for-sale securities	-	(312,610)
Proceeds from sales of available-for-sale securities	19,150	62,460
Net cash used in investing activities	(88,949)	(314,223)
Cash flows from financing activities:		
Net increase (decrease) in short-term debt	(1,048)	32,001
Proceeds from issuance of debt	-	31,188
Increase in borrowings under revolving credit facilities	2,650	18,163
Repayments of long-term debt	(1,676)	(2,143)
Increase in loans to parent company	(200,000)	(1,730)
Decrease in loans to parent company	-	1,551
Debt issuance costs	-	(2,123)
Dividend to parent company	(25,000)	-
Capital contribution from parent company	25,000	-
Net cash provided by (used in) financing activities	(200,074)	76,907
Effect of exchange rate fluctuations on cash and cash equivalents	(1,233)	(359)
Net change in cash and cash equivalents	(298,015)	(124,660)
Cash and cash equivalents, beginning of period	338,794	157,637
Cash and cash equivalents, end of period	$ 40,779	$ 32,977

* Restated - see Note 1 to Consolidated Financial Statements.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) - (CONTINUED)
(THOUSANDS)

	SIX MONTHS ENDED	
	JULY 3, 2005	JULY 4, 2004*
Supplemental Cash Flow Information:		
Cash paid during the period for:		
Interest (net of amount capitalized).................	$ 58,266	$ 59,210
Income taxes (including taxes paid pursuant to the Tax Sharing Agreement)...........................	34,936	9,866
Acquisitions:		
Estimated fair market value of assets acquired.......	$ 29,578	$ 30,425
Purchase price of acquisitions.......................	28,861	27,284
Liabilities assumed................................	$ 717	$ 3,141

* Restated - see Note 1 to Consolidated Financial Statements.

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The consolidated financial statements for International Specialty Holdings Inc. (the "Company") reflect, in the opinion of management, all adjustments necessary to present fairly the financial position of the Company and its consolidated subsidiaries at July 3, 2005, and the results of operations and cash flows for the three- and six-month periods ended July 3, 2005 and July 4, 2004. All adjustments are of a normal recurring nature. Certain amounts in the 2004 consolidated financial statements have been reclassified to conform to the 2005 presentation. These consolidated financial statements should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission on March 31, 2005 (the "2004 Form 10-K").

NOTE 1. CONTRIBUTION OF SYNTHETIC ELASTOMERS BUSINESS FROM PARENT COMPANY

Effective July 28, 2003, the Company's parent company, International Specialty Products Inc. ("ISP"), acquired, through a wholly-owned limited partnership, ISP Synthetic Elastomers LP, certain assets of the synthetic rubber business of Ameripol Synpol Corporation. The synthetic elastomers business manufactures and sells emulsified styrene butadiene rubber and related products. Effective August 30, 2004, ISP contributed the synthetic elastomers business to the capital of the Company. Accordingly, the Company's consolidated financial statements include the results of the synthetic elastomers business from the date of its acquisition by ISP. The synthetic elastomers business is being reported as a separate business segment (see Note 10). The consolidated financial statements for the second quarter and six months ended July 4, 2004 have been restated to include the results of operations of the synthetic elastomers business. For the second quarter and first six months of 2004, the synthetic elastomers business recorded sales of $40.5 million and $74.0 million, respectively, and net income of $1.9 million and $3.0 million, respectively.

NOTE 2. LOANS TO PARENT COMPANY

In August 2004, the Company entered into a loan agreement with ISP pursuant to which the Company will allow ISP to borrow from time to time up to $350.0 million, with interest at the rate of 3.74% per annum on the outstanding principal balance. Commencing in 2005, payment of interest is due in arrears on the outstanding principal balance on each January 31 and July 31. This facility will terminate in August 2007, although the Company may terminate or reduce the loan commitment at any time in its sole discretion. ISP has also agreed to enter into a loan agreement as the lender with an entity controlled by Samuel J. Heyman, ISP's and the Company's Chairman, on terms substantially the same as the loan agreement between the Company and ISP. Mr. Heyman is deemed to beneficially own (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) 100% of ISP's common stock. During the first six months of 2005, the Company loaned a total of $200.0 million to ISP pursuant to this loan agreement. As the Company may call the loan at any time, and the Company intends to demand repayment of such amount within the next twelve months, the loan has been classified on the Consolidated Balance Sheet as a "Short-term loan receivable from parent company."

NOTE 2. LOANS TO PARENT COMPANY - (CONTINUED)

In connection with ISP's going private transaction in February 2003, ISP borrowed a total of $94.0 million pursuant to five loan agreements, dated March 3, 2003, with the Company's wholly-owned subsidiary, ISP Investco LLC and its indirect, wholly-owned subsidiary, ISP Ireland. The loans accrue interest at a fixed rate of 1.65% per annum. Three of the loans, with ISP Ireland, were for principal amounts of up to $20.0 million, $10.0 million and $5.0 million, with maturity dates of six, nine and twelve months, respectively, and could be extended beyond their maturity dates for periods of time equal to their original terms. The remaining two loans, with ISP Investco LLC, are for amounts up to $30.0 million and $40.0 million, with maturity dates of three years and can be extended beyond the maturity dates for an equal period of time. The three loans with ISP Ireland were repaid in December 2003. ISP Investco LLC then entered into a new loan agreement in December 2003 with ISP for an amount of up to $35.0 million. This loan has a term of 10 years and accrues interest at a fixed rate of 5.12% per annum. The balance of all such loans outstanding at each of July 3, 2005 and December 31, 2004 totaled, in the aggregate, $94.8 million.

Interest income on the outstanding loans to ISP discussed above was $2.5 million and $0.7 million for the second quarter of 2005 and 2004, respectively, and $4.7 million and $1.3 million for the first six months of 2005 and 2004, respectively.

NOTE 3. DIVIDEND TO PARENT COMPANY; CAPITAL CONTRIBUTION FROM PARENT COMPANY

In the second quarter of 2005, the Company paid a cash dividend of $25.0 million to ISP. The dividend was accounted for as a charge to retained earnings of $1.7 million and a charge to additional paid-in capital of $23.3 million. Also, in the second quarter of 2005, the Company received a capital contribution of $25.0 million from ISP.

NOTE 4. OTHER OPERATING CHARGES

The Company has implemented a program for the restructuring and consolidation of production capacity in the foods product line within the specialty chemicals business segment. In March 2005, the Company entered into a long-term supply contract with an international company for the purchase of a product in the specialty chemicals business that the Company currently manufactures at its San Diego, California alginates plant. Accordingly, the Company performed an impairment review in the first quarter of 2005 and recorded a $10.5 million non-cash fixed asset impairment charge related to the San Diego facility. The impairment charge was determined based on a review of anticipated future cash flows related to this facility compared with the carrying value of the facility's fixed assets.

NOTE 5. COMPREHENSIVE INCOME

	Second Quarter Ended July 3, 2005	Second Quarter Ended July 4, 2004*	Six Months Ended July 3, 2005	Six Months Ended July 4, 2004*
	(Thousands)			
Net income	$ 14,859	$ 8,820	$ 38,998	$ 38,736
Other comprehensive income (loss), net of tax:				
Change in unrealized gains (losses) on available-for-sale securities:				
Unrealized holding gains arising during the period, net of income tax provision of $0, $(1,530), $(1,640) and $(1,502), respectively	-	1,875	3,044	2,435
Less: reclassification adjustment for gains (losses) included in net income, net of income tax (provision) benefit of $0, $(1,225), $(2,154) and $1,569, respectively	-	(4,598)	3,999	(5,222)
Total change for the period	-	6,473	(955)	7,657
Foreign currency translation adjustment	(4,731)	(2,475)	(9,964)	(3,518)
Total other comprehensive income (loss)	(4,731)	3,998	(10,919)	4,139
Comprehensive income	$ 10,128	$ 12,818	$ 28,079	$ 42,875

* Restated - see Note 1.

Changes in the components of accumulated other comprehensive income for the six months ended July 3, 2005 are as follows:

	Unrealized Gains (Losses) On Available-for-Sale Securities	Cumulative Foreign Currency Translation Adjustment	Additional Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
	(Thousands)			
Balance, December 31, 2004	$ 955	$ 19,981	$ (8,604)	$ 12,332
Change for the period	(955)	(9,964)	-	(10,919)
Balance, July 3, 2005	$ -	$ 10,017	$ (8,604)	$ 1,413

NOTE 6. INVENTORIES

Inventories comprise the following:

	July 3, 2005	December 31, 2004
	(Thousands)	
Finished goods................	$152,635	$118,870
Work-in-process..............	50,905	34,668
Raw materials and supplies....	49,665	54,522
Inventories..................	$253,205	$208,060

At July 3, 2005 and December 31, 2004, $87.8 million and $76.7 million, respectively, of domestic inventories were valued using the LIFO method. If the FIFO inventory method had been used for these inventories, the value of inventories would have been $16.2 million and $9.0 million higher at July 3, 2005 and December 31, 2004, respectively.

NOTE 7. GOODWILL AND INTANGIBLE ASSETS

The following schedule reconciles the changes in the carrying amount of goodwill, by business segment, for the six months ended July 3, 2005.

	Specialty Chemicals	Industrial Chemicals	Synthetic Elastomers	Mineral Products	Total Goodwill
			(Thousands)		
Balance, December 31, 2004........	$ 286,255	$ -	$ -	$ 51,539	$ 337,794
Valuation adjustment - payment of contingent consideration........	1,338	-	-	-	1,338
Translation adjustment............	643	-	-	-	643
Balance, July 3, 2005............	$ 288,236	$ -	$ -	$ 51,539	$ 339,775

The following is information as of July 3, 2005 and December 31, 2004 related to the Company's acquired intangible assets:

	Range of Amortizable Lives	July 3, 2005 Gross Carrying Amount	July 3, 2005 Accumulated Amortization	December 31, 2004 Gross Carrying Amount	December 31, 2004 Accumulated Amortization
			(Dollars in Thousands)		
Intangible assets subject to amortization:					
Patents..............................	5- 20 years	$ 669	$ (198)	$ 669	$ (170)
Formulations.........................	5- 10 years	2,740	(477)	2,740	(295)
Unpatented technology................	10-15 years	1,350	(137)	1,350	(75)
Customer base........................	10-15 years	2,348	(245)	2,348	(151)
Non-compete agreements...............	2- 5 years	3,419	(1,754)	3,419	(1,469)
EPA registrations....................	5 years	166	(116)	166	(99)
Total amortizable intangible assets..		10,692	(2,927)	10,692	(2,259)
Intangible assets not subject to amortization:					
Trademarks...........................		5,596	-	5,596	-
EPA registrations....................		4,648	-	4,648	-
Total unamortizable intangible assets		10,244	-	10,244	-
Total intangible assets..................		$ 20,936	$ (2,927)	$ 20,936	$ (2,259)

NOTE 7. GOODWILL AND INTANGIBLE ASSETS - (CONTINUED)

Estimated amortization expense:

Year ending December 31,	(Thousands)
2005	$ 1,336
2006	1,336
2007	1,072
2008	1,072
2009	774

NOTE 8. RELATED PARTY TRANSACTIONS

During the second quarter of 2005, the Company amended its management agreement (the "Management Agreement"), effective January 1, 2005, whereby the Company, through a subsidiary, provides certain general management services to Building Materials Corporation of America ("BMCA"), an affiliate, and ISP. The purpose of the amendment was to adjust the management fees payable by the parties under the Management Agreement. Charges by the Company for the year 2005 for providing such services under the amended Management Agreement will aggregate approximately $5.9 million.

In addition, during the second quarter of 2005, a subsidiary of the Company entered into a management services agreement with Heyman Properties, LLC and Heyman Investment Associates Limited Partnership (collectively, the "Heyman Entities"), effective as of January 1, 2005. The term of the management services agreement is from January 1, 2005 through December 31, 2005, and may be renewed for additional one-year terms. Under the agreement, the Company will provide certain general management services, and the Heyman Entities will provide certain advisory services for specified fees. The Company will receive a net amount of approximately $0.3 million related to these services in 2005.

NOTE 9. BENEFIT PLANS

Defined Benefit Plans

The Company provides a noncontributory defined benefit retirement plan for certain hourly employees in the United States (the "Hourly Retirement Plan"). At several locations, new employees may not participate and benefits have been frozen for most participants. Benefits under this plan are based on stated amounts for each year of service. The Company's policy is to fund this plan consistent with the minimum funding requirements of ERISA.

ISP Marl GmbH, a wholly-owned German subsidiary of the Company, provides a noncontributory defined benefit retirement plan for its hourly and salaried employees (the "ISP Marl Plan"). Benefits under the ISP Marl Plan are based on average earnings over each employee's career with the Company.

NOTE 9. BENEFIT PLANS - (CONTINUED)

The Company's net periodic pension cost for the second quarter and first six months of 2005 and 2004 for the Hourly Retirement Plan included the following components:

	Second Quarter Ended		Six Months Ended	
	July 3, 2005	July 4, 2004	July 3, 2005	July 4, 2004
	(Thousands)			
Service cost	$ 32	$ 69	$ 96	$ 138
Interest cost	536	523	1,063	1,046
Expected return on plan assets	(762)	(736)	(1,526)	(1,472)
Amortization of actuarial losses	158	126	303	252
Amortization of unrecognized prior service cost	61	60	121	120
Net periodic pension cost	$ 25	$ 42	$ 57	$ 84

The Company's net periodic pension cost for the second quarter and first six months of 2005 and 2004 for the ISP Marl Plan included the following components:

	Second Quarter Ended		Six Months Ended	
	July 3, 2005	July 4, 2004	July 3, 2005	July 4, 2004
	(Thousands)			
Service cost	$ 32	$ 23	$ 64	$ 46
Interest cost	55	48	110	96
Amortization of actuarial losses	4	-	8	-
Amortization of unrecognized prior service cost	1	1	2	2
Net periodic pension cost	$ 92	$ 72	$ 184	$ 144

Postretirement Medical and Life Insurance

The Company generally does not provide postretirement medical and life insurance benefits, although it subsidizes such benefits for certain employees and certain retirees.

The net periodic postretirement benefit (income) cost for the second quarter and first six months of 2005 and 2004 included the following components:

	Second Quarter Ended		Six Months Ended	
	July 3, 2005	July 4, 2004	July 3, 2005	July 4, 2004
	(Thousands)			
Service cost	$ -	$ (9)	$ -	$ 17
Interest cost	70	75	140	206
Amortization of actuarial gains	(37)	(33)	(75)	(33)
Amortization of unrecognized prior service cost	(88)	(71)	(175)	(142)
Net periodic postretirement benefit (income) cost	$ (55)	$ (38)	$ (110)	$ 48

NOTE 9. BENEFIT PLANS - (CONTINUED)

Long-Term Incentive Plans

The Company has two long-term incentive plans, the 2000 Long-Term Incentive Plan and the 2003 Executive Long-Term Incentive Plan, which provide long-term compensation to executives, key management personnel and certain other employees based on ISP's "Book Value" (as defined in the plans). The value of incentive units granted under the plans is determined at the end of each fiscal quarter based on ISP's total Shareholder's Equity. The value on the date of grant is compared to the value as remeasured at the end of each quarter in order to determine compensation expense. Compensation expense related to these plans was $2.5 and $2.4 million for the second quarter of 2005 and 2004, respectively, and $5.5 and $5.7 million for the first six months of 2005 and 2004, respectively.

NOTE 10. BUSINESS SEGMENT INFORMATION

	Second Quarter Ended		Six Months Ended	
	July 3, 2005	July 4, 2004 (1)	July 3, 2005	July 4, 2004 (1)
	(Millions)			
Net sales:				
Specialty Chemicals	$ 183.1	$ 178.1	$ 369.5	$ 364.3
Industrial Chemicals	63.7	49.1	122.4	97.8
Synthetic Elastomers	51.3	40.5	105.4	74.0
Mineral Products (2)	40.3	34.5	79.9	66.5
Net sales	$ 338.4	$ 302.2	$ 677.2	$ 602.6
Operating income (loss):				
Specialty Chemicals (3)	$ 37.9	$ 41.6	$ 72.8	$ 87.8
Industrial Chemicals	0.2	(1.8)	8.0	(1.6)
Synthetic Elastomers	0.4	3.3	6.4	4.7
Mineral Products	6.5	5.6	11.0	8.1
Total segment operating income	45.0	48.7	98.2	99.0
Unallocated corporate office	0.1	-	0.2	-
Total operating income	45.1	48.7	98.4	99.0
Interest expense, investment and interest income (loss) and other expense, net	(22.6)	(35.3)	(39.3)	(40.3)
Income before income taxes	$ 22.5	$ 13.4	$ 59.1	$ 58.7

(1) Restated - see Note 1.

(2) Includes sales to BMCA and its subsidiaries of $27.3 million and $24.9 million for the second quarter of 2005 and 2004, respectively, and $54.9 million and $49.1 million for the first six months of 2005 and 2004, respectively.

(3) Operating income for the Specialty Chemicals business segment for the first six months of 2005 includes a $10.5 million non-cash charge for the impairment of fixed assets. See Note 4.

NOTE 10. BUSINESS SEGMENT INFORMATION - (CONTINUED)

Under the indenture for the 10 5/8% Senior Secured Notes due 2009 (the "2009 Notes"), ISP Synthetic Elastomers LP and ISP Investco LLC have been designated as unrestricted subsidiaries for purposes of covenants relating to the 2009 Notes. Unrestricted subsidiaries had net sales of $51.3 million, operating income of $0.4 million, investment and interest income of $2.3 million and net income of $1.3 million in the second quarter of 2005. In the second quarter of 2004, unrestricted subsidiaries had net sales of $40.5 million, operating income of $3.3 million, investment and interest loss, net, of $12.1 million and a net loss of $7.0 million. Unrestricted subsidiaries had net sales of $105.4 million, operating income of $6.4 million, investment and interest income of $10.1 million and net income of $9.8 million in the first six months of 2005. In the first six months of 2004, unrestricted subsidiaries had net sales of $74.0 million, operating income of $4.7 million, investment and interest income of $6.2 million and net income of $4.6 million. As of July 3, 2005 and December 31, 2004, unrestricted subsidiaries had net assets of $404.3 million and $395.6 million, respectively.

NOTE 11. ACQUISITION

In March 2005, the Company acquired a 1,4-butanediol ("BDO") production facility in Lima, Ohio, and related working capital. BDO is a key building block for many of the core specialty chemicals that the Company markets for pharmaceutical, personal care, food, beverage, coatings, oil field and other market applications. The preliminary purchase price of the acquisition has been allocated to the estimated fair value of the assets acquired pending the determination of any additional contingent consideration. This acquisition is not expected to be material to the Company's results of operations in 2005.

NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS

In November 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 151, "Inventory Costs," an amendment of Accounting Research Bulletin ("ARB") No. 43, Chapter 4, which discussed the general principles applicable to the pricing of inventory. SFAS No. 151 amends ARB No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 151 to have a material effect on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of Accounting Principles Board ("APB") Opinion No. 29. SFAS No. 153 eliminates the exception from fair value

NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS - (CONTINUED)

measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the entity's future cash flows are expected to significantly change as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal reporting periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have an immediate effect on the Company's consolidated financial statements.

In December 2004, the FASB issued a revised SFAS No. 123 ("SFAS No. 123R"), "Share-Based Payment." SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees. In February 2003, ISP completed a going private transaction. As a result, stock-based compensation plans were terminated and payments were made in accordance with the terms of the merger agreement. In addition, the Company currently accounts for incentive units granted to eligible Company employees pursuant to ISP's 2000 Long-Term Incentive Plan and the 2003 Executive Long-Term Incentive Plan under the accounting prescribed by FASB Interpretation No. ("FIN") 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option and Award Plans." FIN 28 requires an entity to measure compensation as the amount by which the Book Value (as defined in the plans) of the incentive units covered by the grant exceeds the option price or value specified of such incentive units between the date of grant and the measurement date, resulting in a change in the measure of compensation for the right or award. Since compensation expense related to such incentive units is currently included in the actual Consolidated Statement of Operations, the Company does not expect SFAS No. 123R to have an impact on the Company's consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position ("FSP") Nos. FAS 109-1 and FAS 109-2, each as a result of the passage in October 2004 of the American Jobs Creation Act of 2004 (the "Jobs Act"). FSP No. FAS 109-1 relates to a provision in the Jobs Act that provides a tax deduction of up to nine percent (when fully phased-in) on qualified production activities. The FASB indicated in FSP No. FAS 109-1 that this deduction should be accounted for as a special deduction in accordance with SFAS No. 109, "Accounting for Income Taxes," rather than as a tax rate reduction. This FSP was effective upon issuance. The Company does not expect the adoption of this FSP to have a material effect on its 2005 consolidated financial statements.

FSP No. FAS 109-2 relates to a provision in the Jobs Act that introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. FSP No. FAS 109-2 was effective upon issuance. This FSP will not have an impact on the Company's consolidated financial statements.

NOTE 12. RECENT ACCOUNTING PRONOUNCEMENTS - (CONTINUED)

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 states that an entity shall recognize the fair value of a liability for an asset retirement obligation ("ARO") in the period in which it is incurred if a reasonable estimate of fair value can be made. The term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 states that if an entity has sufficient information to reasonably estimate the fair value of an ARO, it must recognize a liability at the time the liability is incurred. An entity would have sufficient information to apply an expected present value and therefore an ARO would be reasonably estimable if either of the following conditions exist:
(a) the settlement date and method of settlement for the ARO have been specified by others, such as by law, regulation or contract or (b) the information is available to reasonably estimate the settlement date or the range of potential settlement dates, the method of settlement, and the probabilities associated with the potential settlement dates and methods of settlements. FIN 47 will be effective for the Company as of December 31, 2005. The Company is currently reviewing its AROs to determine the potential impact of FIN 47 on its consolidated financial statements, and, at this time, the Company does not believe that FIN 47 will have a material impact on the Company's consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 eliminates the requirement in APB Opinion No. 20, "Accounting Changes," to include the cumulative effect of changes in accounting principles in the Consolidated Statement of Operations in the period of change. Instead, SFAS No. 154 requires that changes in accounting principles be retrospectively applied, whereby the new accounting principle is applied to prior accounting periods as if that principle had always been used. SFAS No. 154 also redefines "restatement" as the revision of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, although early adoption is permitted for accounting changes and correction of errors made after the date SFAS No. 154 was issued. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements.

NOTE 13. CONTINGENCIES

For information regarding contingencies, reference is made to Note 20 to consolidated financial statements contained in the 2004 Form 10-K.

Environmental Litigation

The Company, together with other companies, is a party to a variety of proceedings and lawsuits involving environmental matters ("Environmental Claims") under the Comprehensive Environmental Response Compensation and Liability Act,

NOTE 13. CONTINGENCIES - (CONTINUED)

Resource Conservation and Recovery Act and similar state laws, in which recovery is sought for the cost of cleanup of contaminated sites or in which remedial obligations are imposed. A number of these Environmental Claims are in the early stages or have been dormant for protracted periods.

While the Company cannot predict whether adverse decisions or events can occur in the future, in the opinion of the Company's management, the resolution of the Environmental Claims should not be material to the business, liquidity, results of operations, cash flows or financial position of the Company. However, adverse decisions or events, particularly as to increases in remedial costs, discovery of new contamination, assertion of natural resource damages, plans for development of the Company's Linden, New Jersey property, and the liability and the financial responsibility of the Company's insurers and of the other parties involved at each site and their insurers, could cause the Company to increase the estimate of its liability or decrease the estimate of insurance recoveries in respect of those matters. It is not currently possible to estimate the amount or range of any additional liability.

Tax Claim Against G-I Holdings Inc.

The predecessor of ISP and certain of its domestic subsidiaries were parties to tax sharing agreements with members of a consolidated group for federal income tax purposes that included G-I Holdings Inc. (the "G-I Holdings Group") in certain prior years. Until January 1, 1997, ISP and its domestic subsidiaries were included in the consolidated federal income tax returns of the G-I Holdings Group and, accordingly, would be severally liable for any tax liability of the G-I Holdings Group in respect of those prior years. Those tax sharing agreements are no longer applicable with respect to the tax liabilities of ISP for periods subsequent to January 1, 1997, because neither the Company nor any of its domestic subsidiaries have been members of the G-I Holdings Group for periods after January 1, 1997. In January 2001, G-I Holdings filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code due to its asbestos-related bodily injury claims relating to the inhalation of asbestos fiber.

On September 15, 1997, G-I Holdings received a notice from the Internal Revenue Service ("IRS") of a deficiency in the amount of $84.4 million (after taking into account the use of net operating losses and foreign tax credits otherwise available for use in later years) in connection with the formation in 1990 of Rhone-Poulenc Surfactants and Specialties, L.P. (the "Surfactants Partnership"), a partnership in which G-I Holdings held an interest. On September 21, 2001, the IRS filed a proof of claim with respect to such deficiency in the G-I Holdings bankruptcy against G-I Holdings and ACI Inc., a subsidiary of G-I Holdings which also held an interest in the Surfactants Partnership and also has filed a voluntary petition for reorganization under Chapter 11 of the U.S. Bankruptcy Code. If the proof of claim is sustained, ISP and/or certain of its subsidiaries together with G-I Holdings and several current and former subsidiaries of G-I Holdings would be severally liable for taxes and interest in the amount of approximately $301 million, computed as of July 3, 2005. On May 7, 2002, G-I Holdings, together with ACI Inc., filed an objection to the proof of claim, which

NOTE 13. CONTINGENCIES - (CONTINUED)

objection will be heard by the United States District Court for the District of New Jersey overseeing the G-I Holdings bankruptcy. G-I Holdings has advised the Company that it believes that it will prevail in this tax matter involving the Surfactants Partnership, although there can be no assurance in this regard. The Company believes that the ultimate disposition of this matter will not have a material adverse effect on its business, financial position or results of operations. For additional information relating to G-I Holdings, reference is made to Notes 7 and 20 to consolidated financial statements contained in the 2004 Form 10-K.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated by the context, "we," "us" and "our" refer to International Specialty Holdings Inc. and its consolidated subsidiaries.

CRITICAL ACCOUNTING POLICIES

There have been no significant changes in our critical accounting policies during the first six months of 2005. For a discussion of our critical accounting policies, reference is made to the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 filed with the Securities and Exchange Commission on March 31, 2005.

RESULTS OF OPERATIONS - SECOND QUARTER 2005 COMPARED WITH

SECOND QUARTER 2004

Overview

We recorded net income of $14.9 million for the second quarter of 2005 compared with net income of $8.8 million in the second quarter of 2004. The improved results for the second quarter of 2005 were attributable to higher investment and interest income, partially offset by lower operating income and higher other expense, net.

Net Sales. Net sales by business segment for the second quarter of 2005 and 2004 were:

	Second Quarter Ended	
	July 3, 2005	July 4, 2004
	(Millions)	
Specialty chemicals....................	$ 183.1	$ 178.1
Industrial chemicals...................	63.7	49.1
Synthetic elastomers...................	51.3	40.5
Mineral products.......................	40.3	34.5
Net sales...........................	$ 338.4	$ 302.2

Net sales for the second quarter of 2005 were $338.4 million compared with $302.2 million in the second quarter of 2004. The $36.2 million (12%) increase in sales resulted primarily from higher pricing and the favorable impact of the weaker U.S. dollar.

Gross Margin. Our gross margin in the second quarter of 2005 was 29.7% compared with 33.0% in the second quarter of 2004. The lower margin was attributable to higher material, energy and manufacturing costs in all business segments, partially offset by favorable pricing and the favorable impact of the weaker U.S. dollar. Manufacturing costs in the second quarter of 2005 were adversely impacted by plant integration costs for the Lima, Ohio production facility acquired in the first quarter of 2005 and by a manufacturing cost improvement program at the Port Neches, Texas synthetic elastomers facility (see further discussion below).

Selling, General and Administrative. Selling, general and administrative expenses increased 9% in the second quarter of 2005 to $55.1 million from $50.8 million in the second quarter of 2004; however, as a percent of sales, these expenses decreased to 16.3% in the second quarter of 2005 from 16.7% in the second quarter of 2004. The increase in selling, general and administrative expenses in the second quarter of 2005 related primarily to higher freight and distribution costs.

Operating Income. Operating income (loss) by business segment for the second quarter of 2005 and 2004 was:

	Second Quarter Ended	
	July 3, 2005	July 4, 2004
	(Millions)	
Specialty chemicals	$ 37.9	$ 41.6
Industrial chemicals	0.2	(1.8)
Synthetic elastomers	0.4	3.3
Mineral products	6.5	5.6
Total segment operating income	45.0	48.7
Unallocated corporate office items	0.1	-
Operating income	$ 45.1	$ 48.7

Operating income for the second quarter of 2005 was $45.1 million compared with $48.7 million in the second quarter of 2004. Operating income for the second quarter of 2005 was adversely affected by increased manufacturing costs at our Port Neches, Texas facility, plant integration costs in the amount of $2.1 million for the Lima, Ohio production facility acquired in the first quarter of 2005 (see "Liquidity and Financial Condition"), and higher raw material and energy costs.

The specialty chemicals segment recorded operating income of $37.9 million for the second quarter of 2005 compared with $41.6 million in the second quarter of 2004. The lower operating income was primarily due to higher raw material and energy costs.

The industrial chemicals segment recorded operating income of $0.2 million in the second quarter of 2005 compared with an operating loss of $1.8 million in the second quarter of 2004. The segment's improved performance was achieved despite the $2.1 million one-time integration costs in connection with the Lima, Ohio production facility referenced above.

The synthetic elastomers segment recorded operating income of $0.4 million in the second quarter of 2005 compared with $3.3 million in the second quarter of 2004. Results were adversely impacted by a manufacturing cost improvement program designed to enhance plant reliability and efficiency, which resulted in downtime for maintenance and repairs. The program was implemented in the second quarter of 2005 and completed in July.

Operating income for the mineral products segment was $6.5 million in the second quarter of 2005 compared with $5.6 million in the second quarter of 2004. The improved results were attributable to favorable pricing and higher unit volumes, partially offset by increased material costs and higher freight and distribution expenses.

Interest Expense. Interest expense for the second quarter of 2005 was $19.7 million compared with $20.3 million in the same period in 2004. The $0.6

million (3%) decrease in interest expense was attributable to lower average borrowings ($1.7 million impact), partially offset by higher average interest rates ($1.1 million impact).

Investment and Interest Income (Loss), Net. Investment and interest income (loss), net, in the second quarter of 2005 was $2.3 million compared with a loss of $12.1 million in the second quarter of 2004. Interest income for the second quarter of 2005 and 2004 on loans to our parent company, International Specialty Products, Inc., which we refer to as "ISP," (see Note 2 to consolidated financial statements) totaled $2.5 million and $0.7 million, respectively. The investment loss in the second quarter of 2004 included a $5.5 million other than temporary impairment charge related to an available-for-sale equity security that was held in our investment portfolio.

Other Expense, Net. Other expense, net, comprises foreign exchange gains and losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating items of expense. Other expense, net, was $5.2 million in the second quarter of 2005 compared with $2.9 million in the second quarter of 2004. The higher expense in the second quarter of 2005 was due to unfavorable foreign exchange.

Income Taxes. In the second quarter of 2005, we recorded a provision for income taxes of $7.7 million. Our effective tax rate was 34.1% for both of the second quarters of 2005 and 2004.

Business Segment Review

A discussion of operating results for each of our business segments follows. We operate our business through four reportable business segments:
specialty chemicals, industrial chemicals, synthetic elastomers, and mineral products.

Specialty Chemicals

Sales in the second quarter of 2005 were $183.1 million compared with $178.1 million in the same period in 2004. The 3% increase in sales was primarily due to the favorable impact of the weaker U.S. dollar ($3.3 million), and, to a lesser extent, favorable pricing.

Operating income for the specialty chemicals segment was $37.9 million for the second quarter of 2005 compared with $41.6 million in the second quarter of 2004. The lower operating income was primarily attributable to higher raw material costs ($6.0 million impact), partially offset by the favorable impact of the weaker U.S. dollar ($1.6 million).

Industrial Chemicals

Sales in the second quarter of 2005 were $63.7 million compared with $49.1 million in the second quarter of 2004. The 30% increase in sales resulted primarily from favorable pricing ($13.9 million) and, to a lesser extent, the favorable effect of the weaker U.S. dollar, partially offset by lower unit volumes.

The industrial chemicals segment recorded operating income of $0.2 million in the second quarter of 2005 compared with an operating loss of $1.8 million in the second quarter of 2004. The improvement in pricing for the industrial chemicals segment more than offset raw material, manufacturing and energy cost increases (totaling $10.0 million), as well as higher operating expenses. The segment's improved performance was achieved despite the $2.1 million one-time integration costs in connection with the Lima, Ohio production facility which was acquired in the first quarter of 2005.

Synthetic Elastomers

Sales for the synthetic elastomers segment were $51.3 million for the second quarter of 2005 compared with $40.5 million in the same period in 2004. The 27% increase in sales was due to favorable pricing ($16.6 million), partially offset by lower unit volumes.

The synthetic elastomers segment recorded operating income of $0.4 million in the second quarter of 2005 compared with $3.3 million in the same period in 2004. Improved pricing in the synthetic elastomers business ($16.6 million) more than offset the impact of raw material cost increases ($9.7 million). However, the segment's results were adversely impacted by a manufacturing cost improvement program designed to enhance plant reliability and efficiency, which resulted in downtime for maintenance and repairs. The program was implemented in the second quarter of 2005 and completed in July.

Mineral Products

Sales for the mineral products segment for the second quarter of 2005 were $40.3 million compared with $34.5 million for the second quarter of 2004. The 17% increase in sales was due to higher unit volumes ($3.2 million), as a result of industry-wide growth, and favorable pricing and included 10% higher sales to Building Materials Corporation of America, an affiliate that we refer to as "BMCA."

Operating income for the mineral products segment was $6.5 million in the second quarter of 2005 compared with $5.6 million for the second quarter of 2004. The 16% improvement in operating income was attributable to favorable pricing ($2.6 million) and the favorable impact of higher unit volumes, partially offset by increased raw material and manufacturing costs (totaling $1.8 million) and higher freight and distribution expenses.

RESULTS OF OPERATIONS - FIRST SIX MONTHS 2005 COMPARED WITH FIRST SIX MONTHS 2004

Overview

We recorded net income of $39.0 million for the first six months of 2005, after a non-cash, pre-tax asset impairment charge of $10.5 million (see "Other Operating Charges" below), compared with net income of $38.7 million in the first six months of 2004. The increase in net income for the first six months of 2005 was attributable to higher investment and interest income and lower interest expense, partially offset by lower operating income, after including the $10.5 million charge, and higher other expense, net.

Net Sales. Net sales by business segment for the first six months of 2005 and 2004 were:

	Six Months Ended	
	July 3, 2005	July 4, 2004
	(Millions)	
Specialty chemicals	$ 369.5	$ 364.3
Industrial chemicals	122.4	97.8
Synthetic elastomers	105.4	74.0
Mineral products	79.9	66.5
Net sales	$ 677.2	$ 602.6

Net sales for the first six months of 2005 were $677.2 million compared with $602.6 million in the first six months of 2004. The $74.6 million (12%) increase in sales resulted primarily from higher pricing, higher unit volumes, and the favorable impact of the weaker U.S. dollar.

Gross Margin. Our gross margin in the first six months of 2005 was 32.3% compared with 33.3% in the first six months of 2004. The lower margin was attributable to higher raw material, energy and manufacturing costs in all business segments, partially offset by favorable pricing and the favorable impact of the weaker U.S. dollar. Manufacturing costs in the first six months of 2005 were adversely impacted by plant integration costs for the Lima, Ohio production facility acquired in the first quarter of 2005 and by a manufacturing cost improvement program at the Port Neches, Texas synthetic elastomers facility (see further discussion below).

Selling, General and Administrative. Selling, general and administrative expenses increased 8% in the first six months of 2005 to $109.4 million from $101.2 million in the first six months of 2004; however, as a percent of sales, these expenses decreased to 16.2% in the first six months of 2005 from 16.8% in the first six months of 2004. The increase in selling, general and administrative expenses in the first six months of 2005 related primarily to higher freight and distribution costs and increased selling expenses as a result of the higher sales levels.

Other Operating Charges. Other operating charges of $10.5 million in the first six months of 2005 represent a non-cash fixed asset impairment charge related to our program for the restructuring and consolidation of production capacity in the foods product line within the specialty chemicals business segment. In March 2005, we entered into a long-term supply contract with an international company for the purchase of a product in the specialty chemicals business that we currently manufacture at our San Diego, California alginates plant. Accordingly, we performed an impairment review in the first quarter of 2005 and recorded a $10.5 million non-cash fixed asset impairment charge related to the San Diego facility. The impairment charge was determined based on a review of anticipated future cash flows related to this facility compared with the carrying value of the facility's fixed assets.

Operating Income. Operating income (loss) by business segment for the first six months of 2005 and 2004 was:

	Six Months Ended July 3, 2005	Six Months Ended July 4, 2004
	(Millions)	
Specialty chemicals....................	$ 72.8	$ 87.8
Industrial chemicals...................	8.0	(1.6)
Synthetic elastomers...................	6.4	4.7
Mineral products.......................	11.0	8.1
Total segment operating income.......	98.2	99.0
Unallocated corporate office items.....	0.2	-
Operating income.....................	$ 98.4	$ 99.0

Operating income for the first six months of 2005 was $98.4 million, after the $10.5 million non-cash asset impairment charge discussed above. Excluding such charge, operating income increased 10% to $108.9 million from $99.0 million in the first six months of 2004 (see "Non-GAAP Financial Measures" below) because of favorable pricing in all business segments. Increased operating income as a result of the 12% increase in sales for the first six months of 2005 was partially offset by increased manufacturing costs at our company's Port Neches, Texas, facility, $2.4 million of integration costs in connection with the acquisition of the Lima, Ohio production facility in the first quarter of 2005, and higher raw material and energy costs.

The specialty chemicals segment recorded operating income of $72.8 million in the first six months of 2005. Excluding the aforementioned non-cash impairment charge of $10.5 million, operating income for the segment was $83.3 million compared with $87.8 million in the first six months of 2004. The lower operating income was due to higher raw material and energy costs.

The industrial chemicals segment recorded operating income of $8.0 million in the first six months of 2005 compared with an operating loss of $1.6 million in the first six months of 2004. The industrial chemicals segment's improved pricing more than offset material cost increases. The segment's improved performance was achieved despite the $2.4 million ($0.3 million in the first quarter and $2.1 million in the second quarter) one-time integration costs in connection with the Lima, Ohio production facility discussed above.

The synthetic elastomers segment recorded operating income of $6.4 million in the first six months of 2005 compared with $4.7 million in the first six months of 2004. While the segment's improved pricing more than offset material cost increases, results were adversely impacted by higher second quarter manufacturing costs at our Port Neches, Texas facility.

Operating income for the mineral products segment was $11.0 million in the first six months of 2005 compared with $8.1 million in the first six months of 2004. The 36% improvement in operating income was attributable to favorable pricing and the favorable impact of higher unit volumes, partially offset by increased material and manufacturing costs and higher freight and distribution expenses.

Interest Expense. Interest expense for the first six months of 2005 was $39.2 million compared with $41.8 million in the same period in 2004. The $2.6 million (6%) decrease in interest expense was attributable to lower average borrowings ($3.7 million impact), partially offset by higher average interest rates ($1.1 million impact).

Investment and Interest Income, Net. Investment and interest income, net, in the first six months of 2005 was $10.3 million compared with $6.2 million in the first six months of 2004, which included a $5.5 million other than temporary impairment charge related to an available-for-sale equity security that was held in our investment portfolio. During the first quarter of 2005, we loaned $200.0 million to our parent company, ISP, pursuant to a loan agreement (see "Liquidity and Financial Condition" below and Note 2 to consolidated financial statements). Interest on the loan is at a rate of 3.74% per annum on the outstanding principal balance and is included in investment and interest income in the first quarter of 2005. Interest income for the first six months of 2005 and 2004 on all loans to ISP totaled $4.7 million and $1.3 million, respectively. Also, in August 2004, we changed our investment strategy to invest our available cash in stable value investments that, although no assurances can be made, we believe will preserve principal and not experience significant moves in volatility. As a result of the above factors, we anticipate that our total investment and interest income for the year 2005 will be lower than historical experience.

Other Expense, Net. Other expense, net, comprises foreign exchange gains and losses resulting from the revaluation of foreign currency-denominated accounts receivable and payable as a result of changes in exchange rates, and other nonoperating items of expense. Other expense, net, was $10.3 million in the first six months of 2005 compared with $4.7 million in the first six months of 2004. The higher expense in the first six months of 2005 was due to unfavorable foreign exchange.

Income Taxes. In the first six months of 2005, we recorded a provision for income taxes of $20.1 million. Our effective tax rate for the first six months of 2005 was 34.1% and 34.0% in the first six months of 2004.

Business Segment Review

A discussion of operating results for each of our business segments follows. We operate our business through four reportable business segments:
specialty chemicals, industrial chemicals, synthetic elastomers, and mineral products. The operating income for the first six months of 2005 for the specialty chemicals business segment discussed below is adjusted for the non-GAAP financial measure in the table below.

Non-GAAP Financial Measures

The business segment review below and the discussion of operating income above contain information regarding non-GAAP financial measures contained within the meaning of Item 10 of Regulation S-K promulgated by the Securities and Exchange Commission. As used herein, "GAAP" refers to U.S. generally accepted accounting principles. We use non-GAAP financial measures to eliminate the effect of certain other operating gains and charges on reported operating income. Management believes that these financial measures are useful to bondholders and financial institutions because such measures exclude transactions that are unusual due to their nature or infrequency and therefore allow bondholders and financial institutions to more readily compare our company's performance from period to period. Management uses this information in monitoring and evaluating our company's performance and the performance of individual business segments. The non-GAAP financial measures included herein have been reconciled to the most directly comparable GAAP financial measure as is required under Item 10 of Regulation S-K regarding the use of such financial measures. These non-GAAP financial measures should be considered in addition to, and not as a substitute, or superior to, operating income or other measures of financial performance in accordance with U.S. generally accepted accounting principles.

	Six Months Ended	
	July 3, 2005	July 4, 2004
	(Millions)	
Reconciliation of non-GAAP financial measures:		
Operating income per GAAP	$ 98.4	$ 99.0
Non-GAAP adjustments:		
Add: Other operating charges(1)	10.5	-
Operating income as adjusted	$ 108.9	$ 99.0
Supplemental Business Segment Information:		
Operating income (loss):		
Operating Income per GAAP - Specialty Chemicals	$ 72.8	$ 87.8
Non-GAAP adjustments (1)	10.5	-
Operating Income - Specialty Chemicals as adjusted	$ 83.3	$ 87.8
Operating Income (Loss) per GAAP - Industrial Chemicals	$ 8.0	$ (1.6)
Non-GAAP adjustments	-	-
Operating Income (Loss) - Industrial Chemicals as adjusted	$ 8.0	$ (1.6)
Operating Income per GAAP - Synthetic Elastomers	$ 6.4	$ 4.7
Non-GAAP adjustments	-	-
Operating Income - Synthetic Elastomers as adjusted	$ 6.4	$ 4.7
Operating Income per GAAP - Mineral Products	$ 11.0	$ 8.1
Non-GAAP adjustments	-	-
Operating Income - Mineral Products as adjusted	$ 11.0	$ 8.1
Total segment operating income as adjusted	$ 108.7	$ 99.0
Unallocated corporate office per GAAP	0.2	-
Operating income as adjusted	$ 108.9	$ 99.0

(1) Non-GAAP adjustments in the first six months of 2005 represent a $10.5 million non-cash other operating charge for the impairment of fixed assets at one of our domestic manufacturing facilities related to a program for the restructuring and consolidation of production capacity in the specialty chemicals segment. See "Other Operating Charges" above.

Specialty Chemicals

Sales in the first six months of 2005 were $369.5 million compared with $364.3 million for the first six months of 2004. The increase in sales was primarily due to the favorable impact of the weaker U.S. dollar ($6.6 million), primarily in Europe, and, to a lesser extent, favorable pricing, partially offset by lower unit volumes ($2.4 million).

The specialty chemicals segment recorded operating income of $72.8 million in the first six months of 2005. Excluding the aforementioned non-cash asset impairment charge of $10.5 million, operating income for the segment was $83.3 million compared with $87.8 million in the first six months of 2004. The lower operating income was primarily attributable to higher raw material costs ($9.5 million impact), partially offset by the favorable impact of the weaker U.S. dollar ($3.6 million).

Industrial Chemicals

Sales in the first six months of 2005 were $122.4 million compared with $97.8 million in the same period in 2004. The 25% increase in sales resulted primarily from favorable pricing ($23.6 million) and, to a lesser extent, the favorable effect of the weaker U.S. dollar ($3.4 million), partially offset by lower unit volumes.

The industrial chemicals segment recorded operating income of $8.0 million in the first six months of 2005 compared with an operating loss of $1.6 million in the first six months of 2004. The industrial chemicals segment's improved pricing more than offset higher raw material, energy and manufacturing costs (totaling $12.2 million). The segment's improved performance was achieved despite $2.4 million of one-time integration costs in connection with the Lima, Ohio production facility acquired in the first quarter of 2005.

Synthetic Elastomers

Sales for the synthetic elastomers segment were $105.4 million for the first six months of 2005 compared with $74.0 million in the same period in 2004. The 42% increase in sales was primarily attributable to favorable pricing ($30.6 million) and higher unit volumes.

Operating income for synthetic elastomers was $6.4 million in the first six months of 2005 compared with $4.7 million in the same period in 2004. The synthetic elastomers segment's aforementioned improved pricing more than offset raw material cost increases ($15.4 million). However, the segment's results were adversely impacted by higher manufacturing costs for the Port Neches, Texas facility as a result of a manufacturing cost improvement program designed to enhance plant reliability and efficiency, which resulted in downtime for maintenance and repairs. The program was implemented in the second quarter of 2005 and completed in July.

Mineral Products

Sales for the mineral products segment for the first six months of 2005 were $79.9 million compared with $66.5 million for the first six months of 2004. The 20% increase in sales was due to higher unit volumes ($8.4 million), as a result of industry-wide growth, and favorable pricing and included 12% higher sales to BMCA, an affiliate.

Operating income for the mineral products segment was $11.0 million in the first six months of 2005 compared with $8.1 million for the first six months of 2004. The 36% improvement in operating income resulted from favorable pricing ($4.9 million) and the favorable impact of higher unit volumes, partially offset by increased raw material and manufacturing costs (totaling $3.7 million) and higher freight and distribution expenses.

LIQUIDITY AND FINANCIAL CONDITION

Cash Flows and Cash Position

During the first six months of 2005, our net cash outflow before financing activities was $96.7 million, including $7.8 million used in operations and the reinvestment of $108.1 million for capital programs and an acquisition, partially offset by $19.2 million of cash proceeds from sales of available-for-sale securities.

Operating Activities. Net cash used in operating activities totaled $7.8 million for the first six months of 2005, compared with cash generated from operating activities of $113.0 million during the first six months of 2004. The variation in cash flows from operating activities was mainly attributable to activity in the first six months of 2004 related to net sales of trading securities for our investment portfolio that did not recur in 2005 as a result of our change in investment strategy in August 2004 as previously discussed. Cash used in operations for the first six months of 2005 included a cash investment of $96.1 million in additional working capital, including a $28.5 million increase in receivables as a result of higher sales, a $33.4 million increase in inventories to support our sales growth and a $33.3 million net decrease in payables and accrued liabilities, mainly due to payments of accrued interest and income taxes.

Investing Activities. Net cash used in investing activities in the first six months of 2005 totaled $88.9 million, primarily attributable to $108.1 million of cash used for capital expenditures and an acquisition, partially offset by $19.2 million of proceeds from the sale of available-for-sale securities.

Capital expenditures in the first six months of 2005 included $33.6 million for the purchase of equipment at our Freetown, Massachusetts facility. We entered into an operating lease in 1998 for an equipment sale-leaseback transaction related to this equipment. The lease had an initial term of four years and, at our option, up to three one-year renewal periods. The lease provided for a substantial guaranteed payment by us, adjusted at the end of each renewal period, and included purchase and return options at fair market values determined at the inception of the lease. We had the right to exercise a purchase option with respect to the leased equipment, or the equipment could be returned to the lessor and sold to a third party. We exercised the purchase option in the first quarter of 2005 for a purchase price of $33.6 million.

In March 2005, we announced an expansion program to increase the capacity of our Port Neches, Texas elastomers plant. The capital expansion will increase the plant's capacity from 400 million pounds to 750 million pounds within two years. Our total capital expenditures for the year 2005 are expected to be approximately $140 million, including approximately $20 million related to the elastomers plant expansion.

In March 2005, we acquired a 1,4-butanediol ("BDO") production facility in Lima, Ohio, and related working capital. BDO is a key building block for many of the core specialty chemicals that we market for pharmaceutical, personal care, food, beverage, coatings, oil field and other market applications. The preliminary purchase price of the acquisition has been allocated to the estimated fair value of the assets acquired pending the determination of any additional contingent consideration. This acquisition is not expected to be material to our results of operations in 2005.

Under the indenture for the 10 5/8% Senior Secured Notes due 2009, which we refer to as the "2009 Notes," ISP Synthetic Elastomers LP and ISP Investco LLC have been designated as unrestricted subsidiaries for purposes of covenants relating to the 2009 Notes. Unrestricted subsidiaries had net sales of $51.3 million, operating income of $0.4 million, investment and interest income of $2.3 million and net income of $1.3 million in the second quarter of 2005. In the second quarter of 2004, unrestricted subsidiaries had net sales of $40.5 million, operating income of $3.3 million, investment and interest income (loss), net, of ($12.1) million and a net loss of $7.0 million. Unrestricted subsidiaries had net sales of $105.4 million, operating income of $6.4 million, investment and interest income of $10.1 million and net income of $9.8 million in the first six months of 2005. In the first six months of 2004, unrestricted subsidiaries had net sales of $74.0 million, operating income of $4.7 million, investment and interest income of $6.2 million and net income of $4.6 million. As of July 3, 2005 and December 31, 2004, unrestricted subsidiaries had net assets of $404.3 million and $395.6 million, respectively.

Financing Activities. Net cash used in financing activities in the first six months of 2005 totaled $200.1 million, principally a $200.0 million loan to our parent company, ISP. In August 2004, we entered into a loan agreement with ISP pursuant to which we will allow ISP to borrow from time to time up to $350.0 million, with interest at the rate of 3.74% per annum on the outstanding principal balance. Commencing in 2005, payment of interest is due in arrears on the outstanding principal balance on each January 31 and July 31. This facility will terminate in August 2007, although we may terminate or reduce the loan at any time in our sole discretion. As we may call the loan at any time, and we intend to demand repayment of such amount within the next twelve months, the loan has been classified on the Consolidated Balance Sheet as a short-term loan receivable from parent company. ISP has also agreed to enter into a loan agreement as the lender with an entity controlled by Samuel J. Heyman, ISP's and our Chairman, on terms substantially the same as the loan agreement between us and ISP.

Financing activities in the first six months of 2005 also included $2.7 million in revolving credit borrowings under our senior credit facilities, offset by $1.7 million of repayments of long-term debt and a $1.0 million decrease in short-term borrowings. In addition, during the first six months of 2005, we paid a cash dividend of $25.0 million to our parent company, ISP, and ISP made a $25.0 million capital contribution to us.

As a result of the foregoing factors, cash and cash equivalents decreased by $298.0 million during the first six months of 2005 to $40.8 million.

Current Maturities of Long-Term Debt

As of July 3, 2005, our current maturities of long-term debt, scheduled to be repaid during the twelve-month period ending June 2006, totaled $4.4 million, including $2.5 million related to the term loan under our senior credit facilities.

Contingencies

See Note 13 to consolidated financial statements for information regarding contingencies.

Contractual Obligations

We have an acetylene supply contract for our requirements of acetylene delivery via pipeline to our Calvert City, Kentucky facility. The current term of this contract expires December 31, 2009 and allows us, at our sole option, to extend the agreement for two additional five-year terms. We are required by the contract to pay a monthly non-cancelable facility fee. Pricing under the contract is on a fixed basis with escalators related to changes in the Producer Price Index.

In 2004, we entered into a long-term requirements contract for acetylene at our Texas City, Texas facility. Under this contract, we are obligated to purchase specified quantities of acetylene through the end of 2013. Pricing under this contract is on a fixed basis with escalators related to changes in actual costs and changes in the Producer Price Index.

The annual unconditional purchase obligation related to the long-term acetylene supply contract at the Texas City plant, together with the non-cancelable facility fee associated with the acetylene contract for the Calvert City plant, is $5.1 million.

The synthetic elastomers business has a 1,3 butadiene supply contract with a multi-national supplier for its requirements of butadiene via pipeline to its Port Neches, Texas facility. Under this agreement, the synthetic elastomers business is required to purchase specified quantities of butadiene through the end of 2006. Pricing for butadiene under this contract varies based on the U.S. Gulf Coast Marker Price announced at the beginning of each calendar month during the term of the contract. The total unconditional purchase obligation related to this supply contract for the years 2005 and 2006 is approximately $3.8 million.

In March 2005, we entered into a long-term contract with an international company for us to purchase 100% of our global requirements of a product in the specialty chemicals business that we currently manufacture. Subject to limited conditions and commencing no later than April 2006, for a period of five years our annual purchase obligation related to this long-term supply contract will be approximately $6.5 million. In the event that we do not meet the annual purchase obligation, we must pay a penalty equal to 30% of the price of the volume shortfall.

As previously discussed, in March 2005, we acquired a BDO production facility in Lima, Ohio. As part of this acquisition, we assumed responsibility for a long-term supply agreement for the purchase of 100% of our hydrogen gas requirements for the Lima facility from a supplier located within the same complex as our BDO production facility. The supply agreement was originally entered into in 1999 and has a term of 15 years beginning in March 2000. We are required to pay a minimum monthly charge (currently $3.1 million on an annualized basis), which increases at the rate of 3.5% per year for the remainder of the term of the agreement.

Recent Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board, which we refer to as "FASB," issued Statement of Financial Accounting Standards, which we refer to as SFAS, No. 151, "Inventory Costs," an amendment of Accounting Research Bulletin, which we refer to as "ARB," No. 43, Chapter 4, which discussed the general principles applicable to the pricing of inventory. SFAS No. 151 amends ARB No. 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. In addition, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 will be effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not expect the adoption of SFAS No. 151 to have a material effect on our consolidated financial statements.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets," an amendment of Accounting Principles Board, which we refer to as "APB," Opinion No. 29. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets and replaces it with an exception for exchanges that do not have commercial substance. A nonmonetary exchange has commercial substance if the entity's future cash flows are expected to significantly change as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal reporting periods beginning after June 15, 2005. We do not expect the adoption of SFAS No. 153 to have an immediate effect on our consolidated financial statements.

In December 2004, the FASB issued a revised SFAS No. 123, which we refer to as "SFAS No. 123R," "Share-Based Payment." SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees. In February 2003, ISP completed a going private transaction. As a result, stock-based compensation plans were terminated and payments were made in accordance with the terms of the merger agreement. In addition, we currently account for incentive units granted to our eligible employees pursuant to ISP's 2000 Long-Term Incentive Plan and 2003 Executive Long-Term Incentive Plan under the accounting prescribed by FASB Interpretation No., which we refer to as "FIN" 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option and Award Plans." FIN 28 requires an entity to measure compensation as the amount by which the Book Value (as defined in the plans) of the incentive units covered by the grant exceeds the option price or value specified of such incentive units between the date of grant and the measurement date, resulting in a change in the measure of compensation for the right or award. Since compensation expense related to such incentive units is currently included in our actual Consolidated Statements of Operations, we do not expect SFAS No. 123R to have an impact on our consolidated financial statements.

In December 2004, the FASB issued FASB Staff Position, which we refer to as "FSP," Nos. FAS 109-1 and FAS 109-2, each as a result of the passage in October 2004 of the American Jobs Creation Act of 2004, which we refer to as the "Jobs Act." FSP No. FAS 109-1 relates to a provision in the Jobs Act that provides a tax deduction of up to nine percent (when fully phased-in) on qualified production activities. The FASB indicated in FSP No. FAS 109-1 that this deduction should be accounted for as a special deduction in accordance with SFAS No. 109, "Accounting for Income Taxes," rather than as a tax rate reduction. This FSP was effective upon issuance. We do not expect the adoption of this FSP to have a material effect on our 2005 consolidated financial statements.

FSP No. FAS 109-2 relates to a provision in the Jobs Act that introduces a special one-time dividends received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. FSP No. FAS 109-2 was effective upon issuance. This FSP will not have an impact on our consolidated financial statements.

In March 2005, the FASB issued FIN 47, "Accounting for Conditional Asset Retirement Obligations," an interpretation of SFAS No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 states that an entity shall recognize the fair value of a liability for an asset retirement obligation ("ARO") in the period in which it is incurred if a reasonable estimate of fair value can be made. The term "conditional asset retirement obligation" refers to a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. FIN 47 states that if an entity has sufficient information to reasonably estimate the fair value of an ARO, it must recognize a liability at the time the liability is incurred. An entity would have sufficient information to apply an expected present value and therefore an ARO would be reasonably estimable if either of the following conditions exist:
(a) the settlement date and method of settlement for the ARO have been specified by others, such as by law, regulation or contract or (b) the information is available to reasonably estimate the settlement date or the range of potential settlement dates, the method of settlement, and the probabilities associated with the potential settlement dates and methods of settlements. FIN 47 will be effective for the Company as of December 31, 2005. We are currently reviewing our AROs to determine the potential impact of FIN 47 on our consolidated financial statements, and, at this time, we do not believe that FIN 47 will have a material impact on our consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections." SFAS No. 154 eliminates the requirement in APB Opinion No. 20, "Accounting Changes," to include the cumulative effect of changes in accounting principles in the Consolidated Statement of Operations in the period of change. Instead, SFAS No. 154 requires that changes in accounting principles be retrospectively applied, whereby the new accounting principle is applied to prior accounting periods as if that principle had always been used. SFAS No. 154 also redefines "restatement" as the revision of previously issued financial statements to reflect the correction of an error. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005, although early adoption is permitted for accounting changes and correction of errors made after the date SFAS No. 154 was issued. SFAS No. 154 does not change the transition provisions of any existing accounting pronouncements.

* * * Forward-looking Statements

This quarterly report on Form 10-Q contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are only predictions and generally can be identified by use of statements that include phrases such as "believe", "expect", "anticipate", "intend", "plan", "foresee" or other words or phrases of similar import.

Similarly, statements that describe our objectives, plans or goals also are forward-looking statements. Our operations are subject to certain risks and uncertainties that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement. The forward-looking statements included herein are made only as of the date of this quarterly report on Form 10-Q and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances. No assurances can be given that projected results or events will be achieved.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Reference is made to Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for a discussion of "Market-Sensitive Instruments and Risk Management." At December 31, 2004 and July 3, 2005, there were no equity-related financial instruments employed by us to reduce market risk. During 2003, we entered into interest rate swaps with a notional value of $23.0 million in order to economically hedge interest rate risk associated with investments in securities for which the market value correlates with interest rate changes. The interest rate swaps were marked-to-market each month, with unrealized gains and losses included in the results of operations. The notional value of interest rate swaps outstanding at December 31, 2004 was $9.0 million. At December 31, 2004, the unrealized gains related to the interest rate swaps were $93,000. At July 3, 2005, there were no interest rate swaps outstanding.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures: Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15 (e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have each concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports filed, furnished or submitted under the Exchange Act.

Internal Control Over Financial Reporting: There were no significant changes in our internal control over financial reporting identified in management's evaluation during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

OTHER INFORMATION

ITEM 5. OTHER INFORMATION

During the second quarter of 2005, the Company amended its management agreement (the "Management Agreement"), effective January 1, 2005, whereby the Company, through a subsidiary, provides certain general management services to Building Materials Corporation of America ("BMCA"), an affiliate, and ISP. The purpose of the amendment was to adjust the management fees payable by the parties under the Management Agreement. Charges for providing such services to BMCA are expected to be approximately $5.9 million during 2005. A more detailed explanation of charges with respect to each party to the agreement is set forth in the Amendment to the Management Agreement, which is filed as Exhibit 10.1 to this report and incorporated by reference herein.

In addition, during the second quarter of 2005, a subsidiary of the Company entered into a management services agreement with Heyman Properties, LLC and Heyman Investment Associates Limited Partnership (collectively, the "Heyman Entities"), effective as of January 1, 2005. The term of the agreement is from January 1, 2005, through December 31, 2005, and may be renewed for additional one-year terms. Under the agreement, the Company will provide certain general management services, and the Heyman Entities will provide certain advisory services for specified fees. The Company will receive a net amount of approximately $0.3 million related to these services in 2005. A more detailed explanation of the charges is set forth in the management services agreement, which is filed as Exhibit 10.2 to this report and incorporated by reference herein.

ITEM 6. EXHIBITS

Exhibits:

Exhibit Number

10.1 Amendment No. 7 to the Amended and Restated Management Agreement dated as of January 1, 2005, by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc., International Specialty Holdings Inc., ISP Investco LLC, ISP Synthetic Elastomers LP, GAF Broadcasting Company, Inc., Building Materials Corporation of America and ISP Management Company, Inc., as assignee of ISP Chemco Inc.

10.2 Management Services Agreement, dated as of January 1, 2005, by and among ISP Management Company, Inc., Heyman Properties, LLC, and Heyman Investment Associates Limited Partnership.

10.3 Form of International Specialty Products Inc. 2000 Long Term Incentive Plan Incentive Unit Grant Agreement.

10.4 Form of International Specialty Products Inc. 2003 Executive Long Term Incentive Plan Incentive Unit Grant Agreement.

31.1 Rule 13a-14(a)/Rule 15d-14(a) Certification of the Chief Executive Officer.

31.2 Rule 13a-14(a)/Rule 15d-14(a) Certification of the Chief Financial Officer.

32.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

INTERNATIONAL SPECIALTY HOLDINGS INC.

DATE: August 17, 2005 *BY: /s/Salvatore J. Guccione*

Salvatore J. Guccione
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

DATE: August 17, 2005 *BY: /s/Kenneth M. McHugh*

Kenneth M. McHugh
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT 10.1

AMENDMENT No. 7, dated as of January 1, 2005, to AMENDED AND RESTATED MANAGEMENT AGREEMENT, dated as of January 1, 1999, as amended by Amendment No. 1, dated as of January 1, 2000, Amendment No. 2, dated as of January 1, 2001, Amendment No. 3, dated as of June 27, 2001, Amendment No. 4, dated as of January 1, 2002, Amendment No. 5, dated as of January 1, 2003 and Amendment No. 6 dated as of January 1, 2004 (as so amended, the "Agreement"), by and among G-I Holdings Inc., Merick Inc., International Specialty Products Inc. ("ISP"), International Specialty Holdings Inc. ("ISH"), ISP Investco LLC ("Investco"), ISP Synthetic Elastomers LP ("Elastomers"), GAF Broadcasting Company, Inc., Building Materials Corporation of America ("BMCA"), and ISP Management Company, Inc. (the "Company"), as assignee of ISP Chemco Inc. Capitalized terms used and not otherwise defined herein shall have the meanings ascribed to them in the Agreement.

WHEREAS, in accordance with Section 7 of the Agreement, the parties desire to adjust the management fees payable to the Company under the Agreement in order to properly reflect the costs to the Company of providing services thereunder;

NOW, THEREFORE, the parties hereby amend the Agreement as follows:

1. Section 3 of the Agreement is hereby amended, effective as of the date hereof, to read in its entirety as follows:

"In consideration of the Company providing Services hereunder, each of the parties listed below shall pay to the Company a management fee (the "Management Fee") at the following respective rates for the quarter ending March 31, 2005 and for each quarter thereafter for which this Agreement has been extended as provided in Section 1 of this Agreement: BMCA (on behalf of itself, its parent and its subsidiaries) - $1,000,000; ISP - $5,000; ISH - $20,000; Elastomers - $3,919,000 and Investco (on behalf of itself and its subsidiaries) - $1,160,000. Notwithstanding the foregoing, the Management Fee rate for the quarter ending June 30, 2005 and for each quarter thereafter for which this Agreement has been extended as provided in Section 1 of this Agreement for Investco (on behalf of itself and its subsidiaries) shall be $685,000. The Management Fee shall be payable monthly in arrears.

In addition to the Management Fee, a wholly owned subsidiary of BMCA shall pay to the Company (as successor to both the overlandlord's and sublandlord's interests in the subject real property) rent payments pursuant to and in accordance with the terms of the Sublease (as amended) between such wholly owned subsidiary of BMCA and Company, the form of which is attached as Exhibit A hereto and made a part hereof.

In consideration of BMCA providing G-I Services hereunder, G-I Holdings Inc. (on behalf of itself and its subsidiaries other than BMCA and BMCA's subsidiaries) shall pay to BMCA a management fee (the "G-I Management Fee") at the rate of $215,000 for the quarter ended March 31, 2005 and for each quarter thereafter for which this Agreement has been extended as provided in Section 1 of this Agreement. The G-I Management Fee shall be payable monthly in arrears."

2. Exhibit A to the Agreement is hereby amended to substitute therefore Exhibit A to this Amendment.

3. In all other respects, the Agreement as previously amended shall remain in full force and effect.

4. This Amendment is subject to the approval of the Board of Directors of the Company.

5. This Amendment may be executed in one or more counterparts, each of which shall be an original but all of which, taken together, shall constitute one and the same instrument. Failure by any one party to execute this Amendment shall not affect the rights and obligations of any other party signatory hereto.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

G-I HOLDINGS INC. GAF BROADCASTING COMPANY, INC.

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By:    /s/ Peter J. Ganz                   By:    /s/ Susan B. Yoss
       -----------------                          -----------------
Name:  Peter J. Ganz                       Name:  Susan B. Yoss
Title: President, Chief Executive Officer, Title: Senior Vice President,
       General Counsel and Secretary              Chief Financial Officer and
                                                  Treasurer

MERICK INC.                                BUILDING MATERIALS
                                           CORPORATION OF AMERICA

By:    /s/ Susan B. Yoss                   By:    /s/ John F. Rebele
       -----------------                          ------------------
Name:  Susan B. Yoss                       Name:  John F. Rebele
Title: Senior Vice President,              Title: Senior Vice President and
       Chief Financial Officer and                Chief Financial Officer
       Treasurer

INTERNATIONAL SPECIALTY                    ISP MANAGEMENT COMPANY, INC.
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PRODUCTS INC.

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By:    /s/ Salvatore J. Guccione           By:    /s/ Salvatore J. Guccione
       -------------------------                  -------------------------
Name:  Salvatore J. Guccione               Name:  Salvatore J. Guccione
Title: Senior Vice President and           Title: Senior Vice President and
       Chief Financial Officer                    Chief Financial Officer

ISP SYNTHETIC ELASTOMERS LP                ISP INVESTCO LLC
By:  ISP Synthetic GP LLC,                 By: International Specialty
     its General Partner                       Holdings Inc., its sole member

By:    /s/ Salvatore J. Guccione           By:    /s/ Susan B. Yoss
       -------------------------                  -----------------
Name:  Salvatore J. Guccione               Name:  Susan B. Yoss
Title: Senior Vice President and           Title: Executive Vice President -
       Chief Financial Officer                    Finance and Treasurer
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INTERNATIONAL SPECIALTY HOLDINGS INC.

By: /s/ Salvatore J. Guccione

Name: Salvatore J. Guccione
Title: Senior Vice President and Chief Financial Officer

EXHIBIT A

AMENDMENT OF SUBLEASE

THIS AMENDMENT (the "Amendment") is made as of January 1, 2005 by and between ISP MANAGEMENT COMPANY, INC. ("Sublessor") and BUILDING MATERIALS MANUFACTURING CORPORATION, as successor-in-interest to Building Materials Corporation of America ("Sublessee").

WITNESSETH

WHEREAS, Sublessor and Sublessee entered into a certain Sublease Agreement dated as of January 1, 1998, as amended by Amendment of Sublease dated as of January 1, 1999, and as further amended by Amendment of Sublease dated as of January 1, 2000, Amendment of Sublease dated as of April 5, 2000, Amendment of Sublease dated as of January 1, 2001, Amendment of Sublease dated as of January 1, 2002, Amendment of Sublease dated as of January 1, 2003 and Amendment of Sublease dated as of January 1, 2004 (collectively, the "Sublease"); and,

WHEREAS, Sublessor and Sublessee wish to modify the Sublease as provided below.

NOW THEREFORE, in consideration of the mutual covenants herein set forth, and other good and valuation consideration, the receipt and sufficiency of which are hereby acknowledged, Sublessor and Sublessee hereby agree to amend the Sublease as follows:

1. Paragraph 4 (Rent) is amended to increase the rent for the period commencing January 1, 2005 through and including May 31, 2005 to $152,166.70 per month and for the period commencing June 1, 2005 through and including December 31, 2005 to $158,725.00 per month, based on an annual rent prorated as of June 1, 2005 of $1,871,908. The rent for any partial calendar month shall be prorated based on the actual number of days in such calendar month.

Except as expressly provided above, the terms, provisions and conditions of the Sublease remain unmodified and in full force and effect.

(Remainder of page left blank intentionally.)

IN WITNESS WHEREOF, Sublessor and Sublessee have executed this amendment as of the date first set forth above.

SUBLESSOR:	SUBLESSEE:
ISP MANAGEMENT COMPANY, INC., a Delaware corporation	BUILDING MATERIALS MANAUFACTURING CORPORATION, a Delaware corporation
By: /s/ Salvatore J. Guccione	By: /s/ John F. Rebele
Name: Salvatore J. Guccione	Name: John F. Rebele
Title: Senior Vice President and Chief Financial Officer	Title: Senior Vice President and Chief Financial Officer

EXHIBIT 10.2

MANAGEMENT SERVICES AGREEMENT

THIS MANAGEMENT SERVICES AGREEMENT ("Agreement") is made as of January 1, 2005, by and among ISP Management Company, Inc., a Delaware corporation ("ISP") Heyman Properties, LLC, a Connecticut limited liability company and Heyman Investment Associates Limited Partnership, a Connecticut limited partnership (collectively, the "Heyman Entities").

WHEREAS, the Heyman Entities desire to have ISP provide certain management services to each of them and certain of their affiliates; and

WHEREAS, ISP desires to have the Heyman Entities provide certain advising services to it and certain of its affiliates; and

WHEREAS, ISP and the Heyman Entities are willing to provide such services to each other, but will incur certain costs and expenses relating to those services; and

WHEREAS, the Heyman Entities desire to establish management fees payable to ISP in order to more appropriately reflect the usage of such management services provided by ISP and the costs to ISP of providing such management services, and

WHEREAS, ISP desires to establish advising fees payable to each of the Heyman Entities in order to more appropriately reflect the usage of such services provided by the Heyman Entities and the costs to the Heyman Entities of providing such services;

NOW, THEREFORE, in consideration of the mutual promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and subject to the conditions contained herein, the parties hereby agree as follows:

1. Term. The term of this Agreement shall commence as of January 1, 2005 and shall continue up to and including December 31, 2005 (the "Initial Term"). This Agreement may be renewed for additional terms of one (1) year (each a "Renewal Term") unless terminated in writing by the parties hereto by giving such notice not less than thirty (30) days prior to the expiration of the Intitial Term or any Renewal Term.

2. Provision of Services. (a) ISP, or one of its affiliates, agrees to provide to the Heyman Entities, or an affiliate, to the extent required, the management services listed on Exhibit A attached hereto and made a part hereof, wherever rendered, which shall be provided on a continuous basis without specific request.

The management services listed on Exhibit A shall not be deemed exhaustive and may be changed according to the changing business needs of the parties hereto from time to time upon mutual agreement among such parties (all services provided by ISP pursuant to this Agreement are hereinafter collectively referred to as the "ISP Services").

(b) Each of the Heyman Entities agrees to provide to ISP, and from time to time at ISP's request, the other parties to that certain Amended and Restated Management Agreement dated as of January 1, 1999 as amended, either through ISP or directly to the parties, and to the extent required, the advisory services listed on Exhibit B attached hereto and made a part hereof, wherever rendered, which shall be provided on a continuous basis without specific request.

The services listed on Exhibit B shall not be deemed exhaustive and may be changed according to the changing business needs of the parties hereto from time to time upon mutual agreement among such parties (all services provided by Heyman Entities pursuant to this Agreement are hereinafter collectively referred to as the "Heyman Entities Services").

3. Fees. In consideration of ISP providing the ISP Services hereunder, the Heyman Entities shall pay to ISP a management fee (the "Management Fee") as set forth on Exhibit C attached hereto and made a part hereof. In consideration of the Heyman Entities providing the Heyman Entities Services hereunder, ISP shall pay to the Heyman Entities an advisory fee (the "Advisory Fee") as set forth on Exhibit C attached hereto and made a part hereof. The parties may replace Exhibit C from time to time to reflect adjustments to the Management Fee and/or the Advisory Fee. The Management Fee and/or the Advisory Fee shall be payable quarterly in arrears.

4. Reimbursement of Expenses.

(i) To the extent ISP or the Heyman Entities pays any expense attributable to the other party for reasons of administrative convenience (a "Reimbursable Expense"), ISP or the Heyman Entities shall promptly bill the other party for the amount thereof, and the other party shall promptly pay such invoice. If a Reimbursable Expense is part of a combined or consolidated expense billed or otherwise charged to ISP or the Heyman Entities though incurred for the benefit of both parties, the party for whose benefit such expense was incurred shall endeavor to arrange for direct billing or charging to them of their respective portions of such expense.

(ii) If ISP or the Heyman Entities bills the other party for Reimbursable Expenses during a calendar quarter, it shall provide to the other party, following the completion of such quarter, a statement indicating all amounts invoiced during such quarter and whether such amounts have been paid.

(iii) Any shared third party charges shall be allocated among the parties hereto on such basis as ISP, in consultation with the Heyman Entities, shall reasonably determine.

(iv) If, at the request of the Heyman Entities, ISP performs services outside of the normal scope of the Services provided hereunder, the Heyman Entities shall pay ISP such fee therefor as is reasonably designated by ISP in advance of performing such services.

5. Warranty. The parties hereto warrant that they will employ sufficient and properly skilled personnel to perform the ISP Services and the Heyman Entities Services in a professional manner. It is understood that ISP may enter into contracts with third party suppliers to supply the ISP Services and shall take into account the best interests of the Heyman Entities in negotiating the terms and conditions of such contracts. If necessary for ISP's effective exercise of its responsibilities hereunder, the Heyman Entities shall designate authorized representatives of ISP as their officers and employees, subject to all of the other terms of this Agreement.

6. Records and Audit. A party that bills the other for Reimbursable Expenses shall make and maintain accurate and complete records of such expenses and the basis for all invoices therefor, and shall ensure that there is no duplication in the invoicing of costs to such party. A party that pays any Reimbursable Expenses invoiced to it shall have the right to audit the records relating thereto from time to time during normal business hours.

7. Amendments.

(i) The parties acknowledge that the Management Fee and Advisory Fee has been established to reflect the cost to both parties of providing the ISP Services and the Heyman Entities Services hereunder on the date hereof. In the event of a change of circumstances that materially affects the cost to either party of providing any services hereunder, including, without limitation, a substantial increase in the services provided by either party hereunder, the parties shall negotiate in good faith such amendments to this Agreement as may be appropriate to take into account the effect of any such changes of circumstances. Such amendments may include, without limitation, an increase or decrease of the Management Fee or Advisory Fee.

(ii) Subject to paragraph (iii) of this Section 7, any amendment, modification or waiver of any provision of this Agreement shall only be effective if evidenced by a written instrument signed by an authorized representative of ISP and an authorized representative of each of the Heyman Entities affected by such amendment, modification or waiver.

(iii) Notwithstanding anything else to the contrary contained herein, the list of Services may be revised by mutual agreement of an authorized representative of each party without the need for a written instrument.

8. Governing Law. The execution, validity, interpretation and enforcement of this Agreement shall be governed by the internal laws of the State of New York without regard to choice of law principles that would lead to the application of any other state's law.

IN WITNESS WHEREOF, the parties have executed this Agreement on the date and year first above written.

ISP MANAGEMENT COMPANY, INC.

By: /s/ Salvatore J. Guccione

Name: Salvatore J. Guccione
Title: Senior Vice President and Chief Financial Officer

HEYMAN PROPERTIES, LLC

By: /s/ James R. Mazzeo

Name: James R. Mazzeo
Title: Chief Financial Officer

HEYMAN INVESTMENT ASSOCIATES LIMITED PARTNERSHIP

By: /s/ Samuel J. Heyman

Name: Samuel J. Heyman
Title: General Partner

EXHIBIT A

Examples of ISP Services

(i) accounting services;

(ii) computer services;

(iii) legal and corporate secretarial services;

(iv) tax advisory services;

(v) administrative services;

(vi) concierge services, including, but not limited to, travel and entertainment arrangements and reservations;

(vii) general management services as requested from time to time;

(viii) use of office space located in New York City;

(ix) investment management and advisory services, including, but not limited to:

(a) portfolio management;

(b) equity management (i.e. Large Cap/Small Cap equities);

(c) bond management (i.e. cash, fixed income);

(d) alternative investments (i.e. hedge funds, swaps, derivatives)

EXHIBIT B

<u>Examples of Heyman Entities Services</u>

(i) corporate development;

(ii) strategic acquisitions;

(iii) risk arbitrage;

(iv) all aspects of real estate and property portfolio management

EXHIBIT C

Fees (annual aggregate amount)

ENTITY	FEE
Heyman Properties (to ISP)	$245,000
Heyman Investment Associates (to ISP)	$470,000
Total fees payable by Heyman Entities to ISP	$715,000
ISP (to Heyman Properties)	$230,000
ISP (to Heyman Investment Associates)	$200,000
Total fees payable by ISP to Heyman Entities	$430,000

EXHIBIT 10.3

INTERNATIONAL SPECIALTY PRODUCTS INC.

2000 LONG TERM INCENTIVE PLAN AGREEMENT

"O" PLAN

[Name]
[Address]

[ID]

Pursuant to the ISP 2000 Long Term Incentive Plan (the "Plan"), you are hereby awarded Incentive Units as follows:

Award No.	[Number]
Award Date	[Date]
Vesting Schedule	20% [Award Date +1 year] 40% [Award Date +2 years] 60% [Award Date +3 years] 80% [Award Date +4 years] 100% [Award Date +5 years]
Expiration Date	[Award Date +6 years]
Total Number of Units Awarded	[Number]
Book Value	[$.] -- --

Enclosed please find the ISP 2000 Long Term Incentive Plan Document, and an Exercise Form, which you may use to exercise the units when they become exercisable.

If you have any questions regarding this award, please call Richard Irwin in Corporate Human Resources.

For International Specialty Products Inc. Date

EXHIBIT 10.4

INTERNATIONAL SPECIALTY PRODUCTS INC.

2003 EXECUTIVE LONG TERM INCENTIVE PLAN AGREEMENT

"N" PLAN

[Name]
[Address]

[ID]

Pursuant to the ISP 2003 Executive Long Term Incentive Plan (the "Plan"), you are hereby awarded Incentive Units as follows:

Award No.	[Number]
Award Date	[Date]
Vesting Schedule	20% [Award Date +1 year] 40% [Award Date +2 years] 60% [Award Date +3 years] 80% [Award Date +4 years] 100% [Award Date +5 years]
Expiration Date	[Award Date +10 years]
Total Number of Units Awarded	[Number]
Book Value	[$ --- . ---]

For International Specialty Products Inc. Date

EXHIBIT 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER

I, Sunil Kumar, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Specialty Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 17, 2005

/s/ Sunil Kumar

Name: Sunil Kumar
Title: President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

I, Salvatore J. Guccione, certify that:

1. I have reviewed this quarterly report on Form 10-Q of International Specialty Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 17, 2005

/s/ Salvatore J. Guccione

Name: Salvatore J. Guccione
Title: Senior Vice President and Chief Financial Officer

EXHIBIT 32.1

**CERTIFICATION OF CEO AND CFO PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO**

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report on Form 10-Q of International Specialty Holdings Inc. (the "Company") for the quarterly period ended July 3, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sunil Kumar, as President and Chief Executive Officer of the Company and Salvatore J. Guccione, as Senior Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge and belief:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sunil Kumar

Name: Sunil Kumar
Title: President and Chief Executive Officer

Date: August 17, 2005

/s/ Salvatore J. Guccione

Name: Salvatore J. Guccione
Title: Senior Vice President and Chief Financial Officer

Date: August 17, 2005

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.